



MORGAN  SINDALL

# the construction and regeneration group

**Preliminary Results 2008**



# Introduction



- Introduction John Morgan
- Financial highlights David Mulligan
- Trading and outlook by division Paul Smith
- Outlook and prospects John Morgan

# Overview – 2008 Highlights

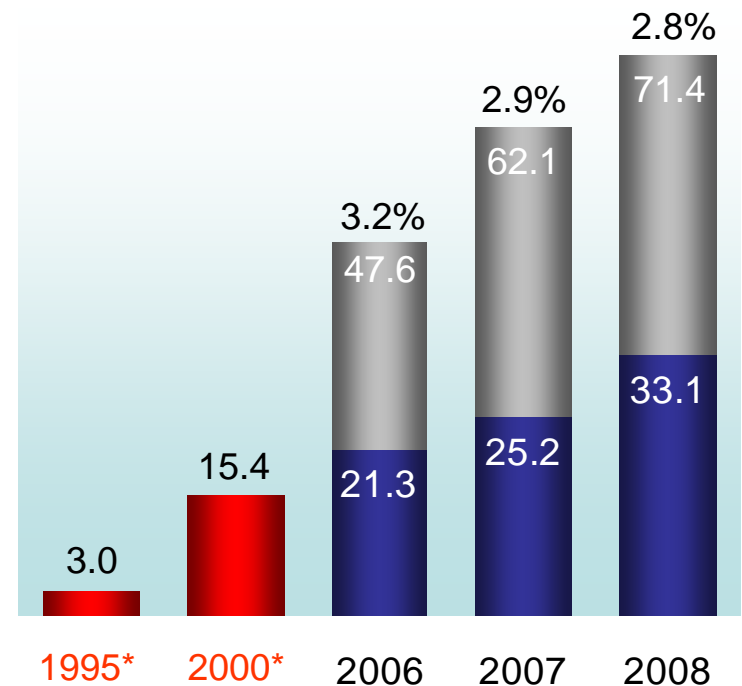
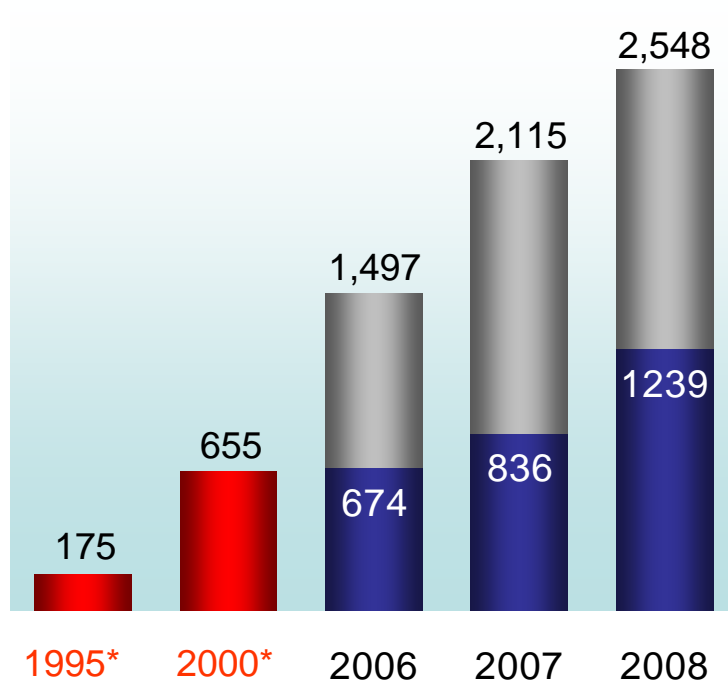
- Delivered expectations for 2008, responding positively to changing market conditions
- Record results with profit before tax and amortisation up 15% to £71.4m (2007: £62.1m)
- Adjusted earnings per share up 22% to 127.8p, total dividend increased by 11% to 42.0p
- Group remains financially strong with net cash at £120m (2007: £219m) with average cash of £77m (2007: £75m)
- Well-positioned for the future: balanced group with broad sector spread
- Order book at £3.7bn (2007: £4.3bn), giving good visibility for the year ahead

# Overview – Financial History

£m

Revenue

Profit before tax & amortisation



\* 1995 and 2000 figures on UK GAAP basis

# Financials – Summary

<b>£m</b>	<b>December 2008</b>	<b>December 2007</b>
<b>Revenue</b>	<b>2,548</b>	<b>2,115</b>
<b>Profit before tax and amortisation</b>	<b>71.4</b>	<b>62.1</b>
<b>Profit before tax</b>	<b>62.3</b>	<b>57.6</b>
<b>Effective tax rate</b>	<b>28%</b>	<b>32%</b>
<b>Tax charge</b>	<b>17.5</b>	<b>18.2</b>
<b>Profit after tax</b>	<b>44.8</b>	<b>39.4</b>
<b>Net assets</b>	<b>192.3</b>	<b>165.7</b>
<b>Adjusted EPS</b>	<b>127.8p</b>	<b>104.5p</b>
<b>Dividend per share</b>	<b>42.0p</b>	<b>38.0p</b>

# Overview – Segmental Profit Analysis

£m	December 2008	December 2007	
<b>Fit Out</b>	<b>25.8</b>	25.9	-
<b>Construction</b>	<b>9.5</b>	4.9	+94%
<b>Infrastructure Services</b>	<b>14.4</b>	10.6	+36%
<b>Affordable Housing</b>	<b>21.0</b>	25.5	-18%
<b>Urban Regeneration</b>	<b>7.8</b>	4.2	+86%
	<b>78.5</b>	71.1	+10%
<b>Group Activities</b>	<b>(11.4)</b>	(13.1)	
<b>Amortisation</b>	<b>(9.1)</b>	(4.5)	
<b>OPERATING PROFIT</b>	<b>58.0</b>	53.5	+8%
<b>Interest</b>	<b>4.3</b>	4.1	
<b>PBT</b>	<b>62.3</b>	57.6	+8%

# Financials – Balance Sheet and Cash Flow

## ➤ Balance sheet

- Net assets £192.3m (2007: £165.7m), including £183.3m goodwill (2007: £183.3m)
- Investments in JVs £53m (2007: £38m), reflecting £12m increase in investments during the year and £3m share of profits
- Inventories £171m (2007: £129m)
- Fair value provisions £39m (2007: £79m)

## ➤ Cash flow

- Net cash at end of year £120m (2007: £219m)
- Average cash during the year of £77m (2007: £75m)
- Working capital outflow of £115m (2007: £114m inflow)
  - £43m movement relating to inventories caused by slow down in open market housing
  - £40m relating to the cash impact of the movement in fair value provisions

# Financials – Cash and Facilities

- Group remains financially strong
  - Cash of £120m
  - Small pension deficit - £3m
  
- Facilities in place if required
  - £25m RCF to November 2009 with RBS
  - £50m RCF to June 2010 with Lloyds TSB



# Overview – Corporate Structure

## Fit Out

UK's leading office fit out business comprising Overbury, Morgan Lovell and Vivid Interiors.

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Fit Out

## Construction

National construction business working across the public and commercial sectors with particular expertise in education and health, incorporating a multi-disciplined design and project management business.

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## Infrastructure Services

A leading UK provider specialising in civil engineering and utilities services in the water, gas, electricity, defence and transport sectors.

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## Affordable Housing

A leading provider of affordable housing specialising in mixed tenure developments.

  
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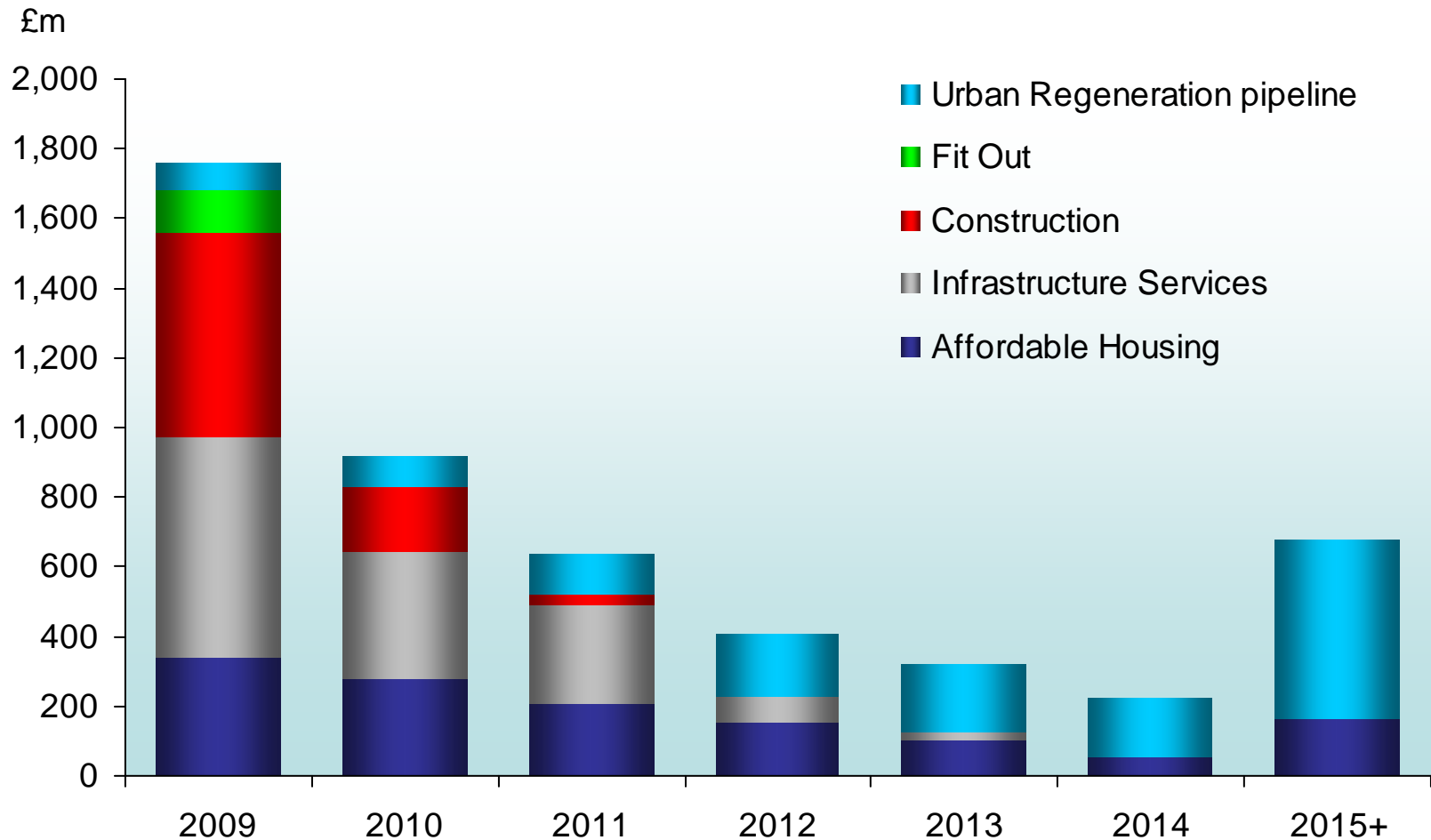
## Urban Regeneration

An urban regeneration business which specialises in delivering complex mixed use schemes mainly through partnership arrangements.

  
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DEVELOPMENTS

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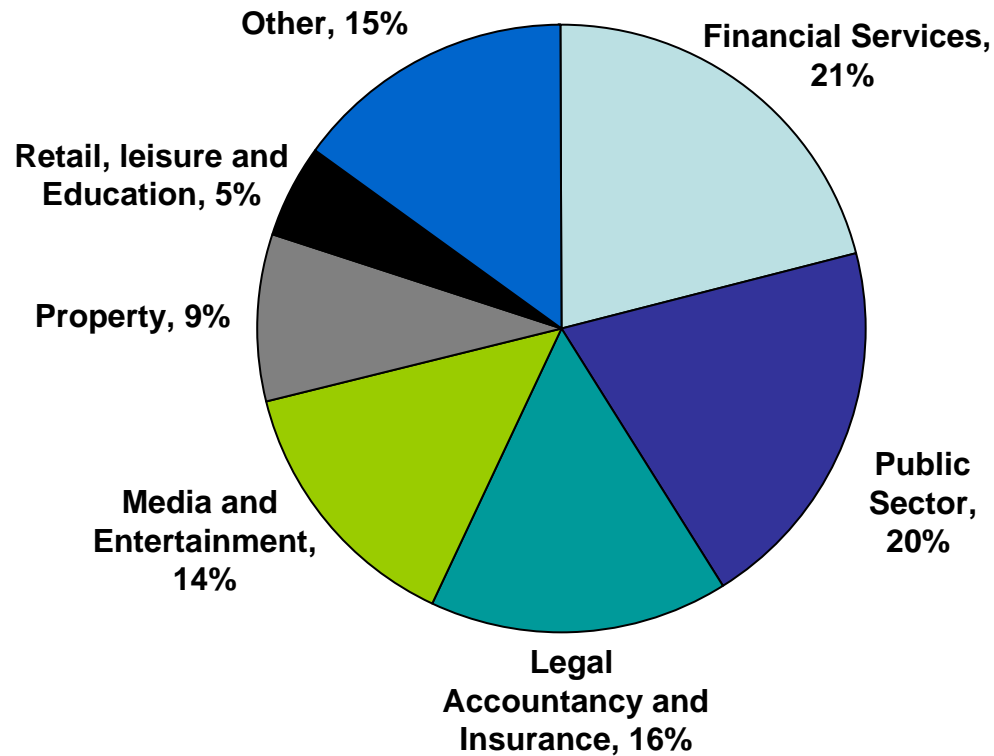
# Overview – Year End Order Book Profile





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*Fit Out*

# Fit Out – Market Sectors



\* Based on 2008 revenue

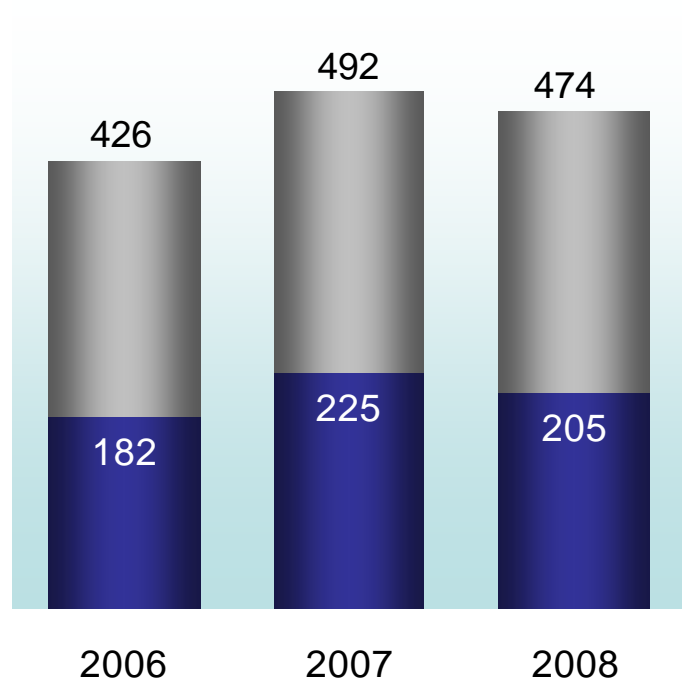
# Fit Out – Market & Trading Highlights

- Market held up better than expected
- Strengthened market leading position
- Increase in fit out of existing buildings
- Adjusted the cost base
- Revenue softened 4% to £474m (2007: £492m)
- Operating profit maintained at £25.8m (2007: £25.9m)
- Equalled our peak margin at 5.4% (2007: 5.3%)

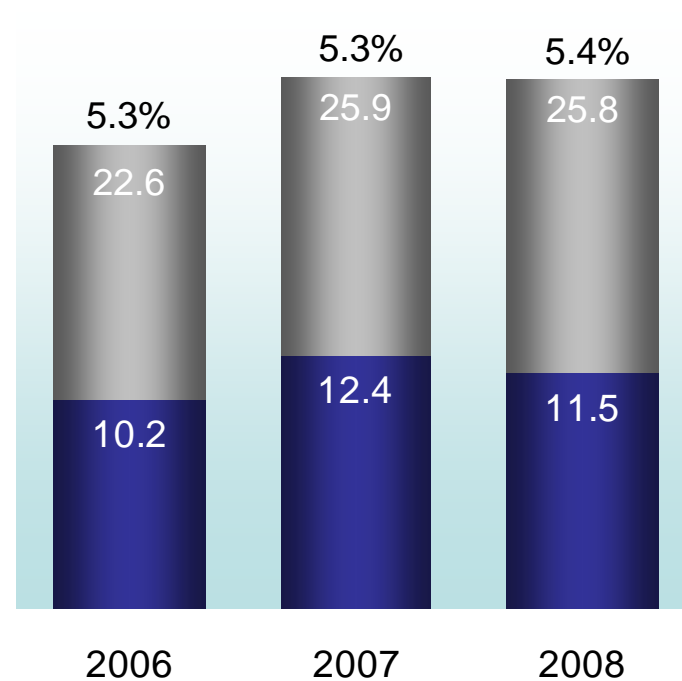
# Fit Out – Financial History

£m

Revenue



Operating Profit



# Fit Out – Projects



**Client:** InterContinental Hotels Group  
**Project:** 100,000 sq ft fit out of new HQ  
**Contract value:** £9m  
**Location:** Denham, Buckinghamshire

**Client:** International Maritime Organisation (IMO)  
**Project:** 200,000 sq ft refurbishment over 8 floors  
**Contract value:** In excess of £40m  
**Location:** London



**Other key projects:** Deloitte (in excess of £40m), St Pancras Brasserie (£2.1m), North Hertfordshire College (£547k), NHS Education South Central (£740k)

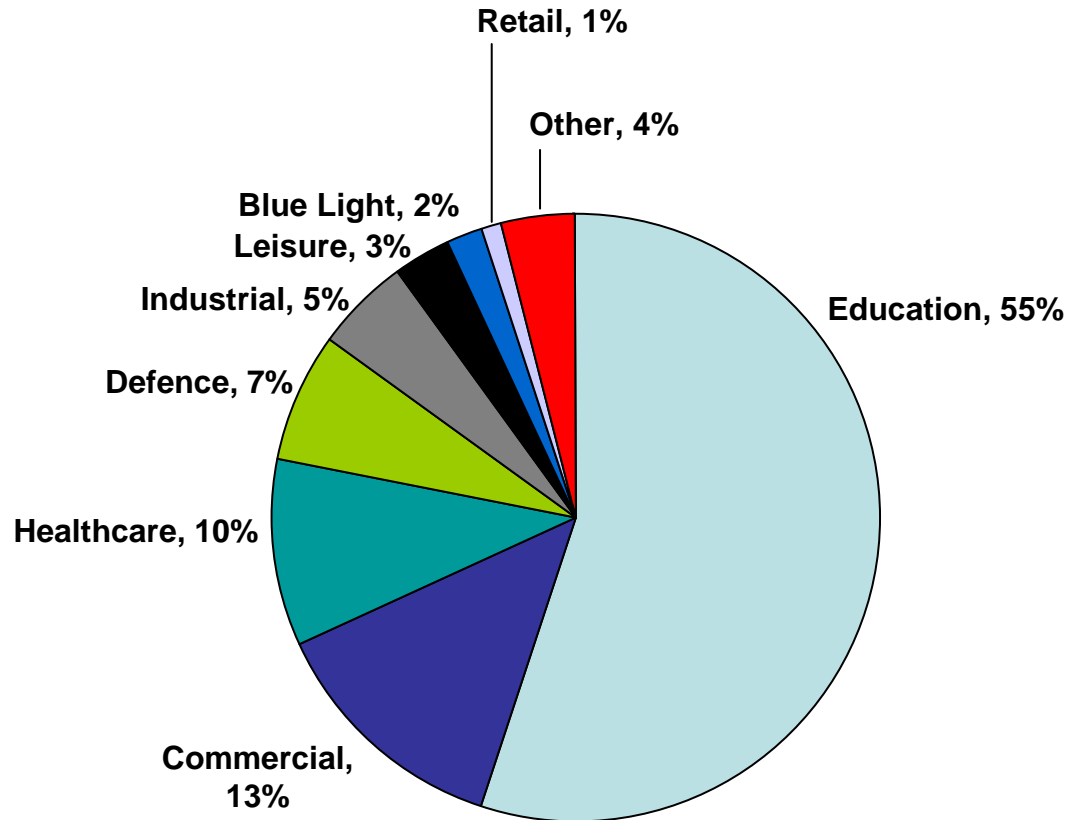
# Fit Out – Outlook

- Expecting further market contraction in 2009
- Strength in broad sector spread: ability to adapt to changes
- Public sector demand holding up
- Further gain in market share: flight to quality
- Continued focus on large projects
- Expansion of Vivid: Royal Mail, Imperial College and RBS frameworks
- Opportunities in banking sector due to rationalisation
- Order book at £124m (2007: £179m), strengthened to £181m at end of January 2009 (Jan 2008: £183m) extending into 2010



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# Construction – Market Sectors



\* Based on 2008 revenue

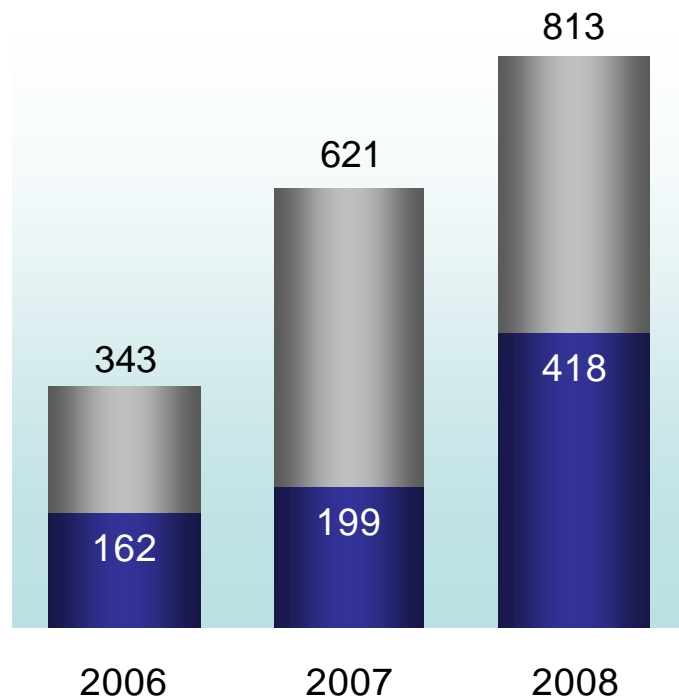
# Construction – Market & Trading Highlights

- Market mixed in 2008; strength in public sector demand offsetting weak commercial property sector
- Strength in sector spread: currently 75% public sector
- 70% workload framework and negotiated
- Overall operating profit increased by 94% to £9.5m (2007: £4.9m) on revenue of £813m (2007: £621m)
- Margin ahead at 1.2% (2007: 0.8%)
- Adjusted operating profit for one-off IT costs of £1.0m gives margin of 1.3% (2007: 1.2%)

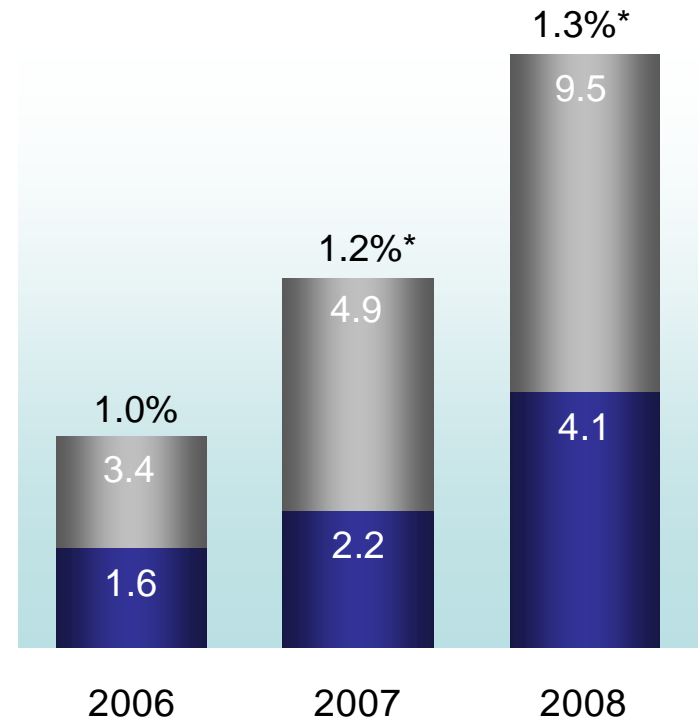
# Construction – Financial History

£m

Revenue



Operating Profit



\* After adjustment of one-off IT costs

# Construction – Projects



**Client:** The University of Manchester  
**Project:** A V Hill Building  
**Contract value:** £30m  
**Location:** Manchester

**Client:** University College London  
**Project:** New 669 bed hospital covering 3 acres  
**Contract value:** £60m  
**Location:** London



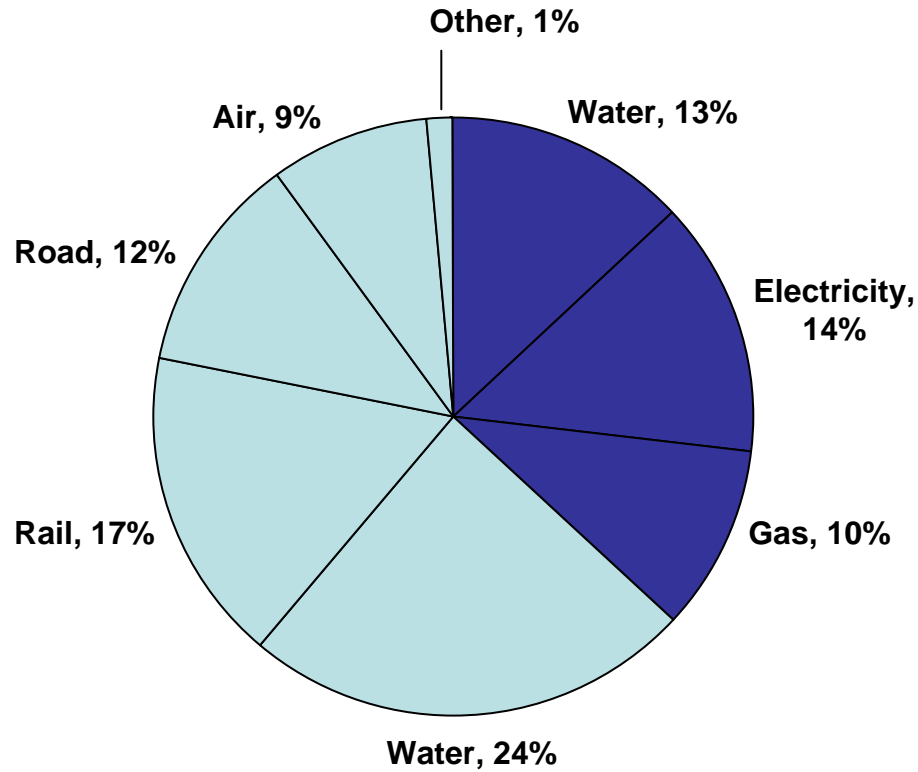
**Other key projects:** RAF Valley (£20m), Bideford College (£40m), Oxfordshire Mental Health framework (£8m over 5 years), Regional Prime South West framework (£700m over 10 years)

# Construction – Outlook

- Market underpinned by public sector spending: £1.4bn of education and health spend brought forward
- Tougher market conditions expected
- Continued focus on cash, costs and supply chain
- Expansion of Perfect Delivery quality programme
- Order book maintained at £805m (2007: £810m)

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# Infrastructure Services – Market Sectors



■ Civil Engineering    ■ Utilities



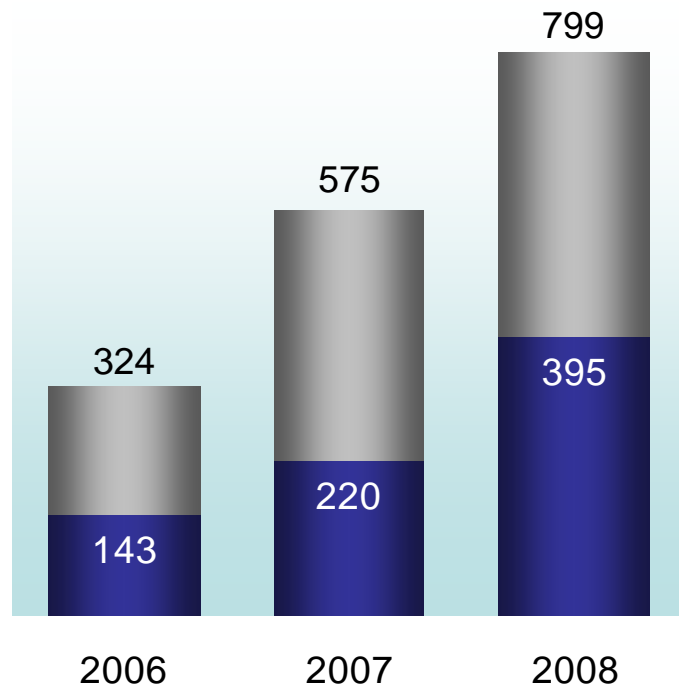
# Infrastructure Services – Market & Trading Highlights

- Continued growth in infrastructure market driven by investment in transport, water and energy
- Successful delivery of key projects: Kincardine Crossing and DLR WAX
- Operating profit increased by 36% to £14.4m (2007: £10.6m) on revenue of £799m (2007: £575m)
- Operating profit margin of 1.8% (2007: 1.8%)
- Adjusted operating profit for one-off IT costs of £1.4m gives margin of 2.0% (2007: 2.1%)

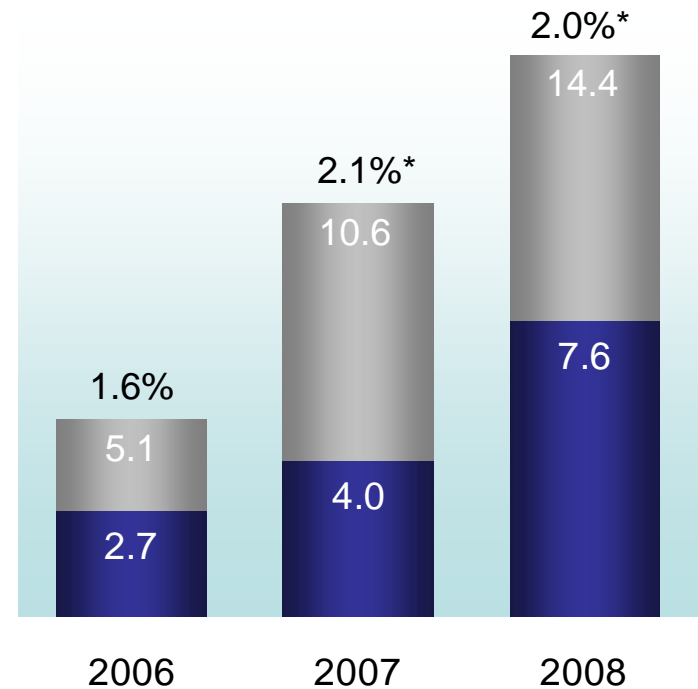
# Infrastructure Services – Financial History

£m

Revenue



Operating Profit



\* After adjustment of one-off IT costs

# Infrastructure Services – Projects



**Client:** Scottish Power Renewable Energy Ltd  
**Project:** Clachan Flats Windfarm  
**Contract value:** £3.5m  
**Location:** Strathclyde

**Client:** London Underground / Westfield  
**Project:** Shepherd's Bush (Central Line) Station  
**Contract value:** £60m  
**Location:** London



**Other key projects:** Drax Co-Fired Biomass Plant (£6m), completion of Kincardine Crossing (£50m), completion of DLR WAX (£180m)

# Infrastructure Services – Outlook

- Expect further market growth
- Currently bidding large number of projects
  - Major opportunities in transport, water and energy sectors particularly for tunnelling
  - AMP5 bidding in water sector
- Expansion in gas and electricity sectors
- Order book at £1.4bn (2007: £1.7bn)

# Affordable Housing



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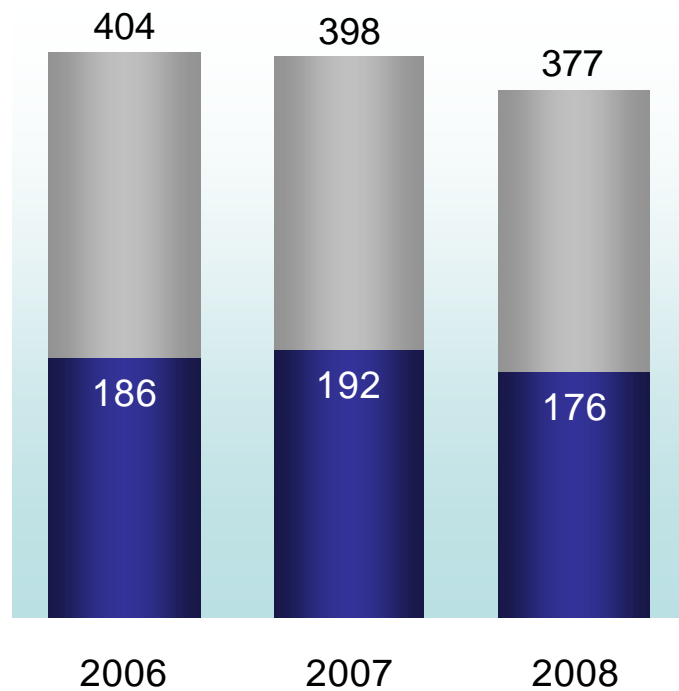
# Affordable Housing – Market & Trading Highlights

- Subdued open market housing sector
- Responded by expanding refurbishment and new build social housing activities
- Cost reductions also implemented
- Good progress of PFI project at Miles Platting, Manchester
- Operating profit of £21.0m (2007: £25.5m) on revenue of £377m (2007: £398m)
- Margin at 5.6% (2007: 6.4%) impacted by fall in open market volumes

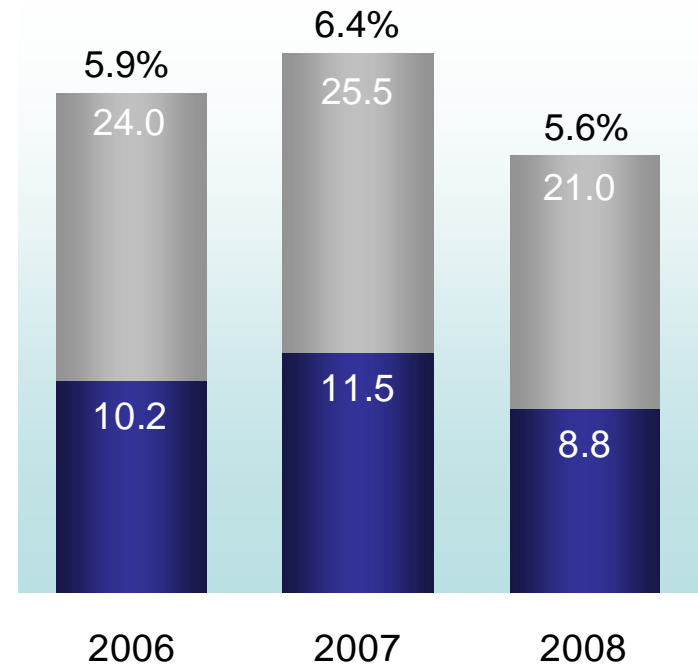
# Affordable Housing – Financial History

£m

Revenue

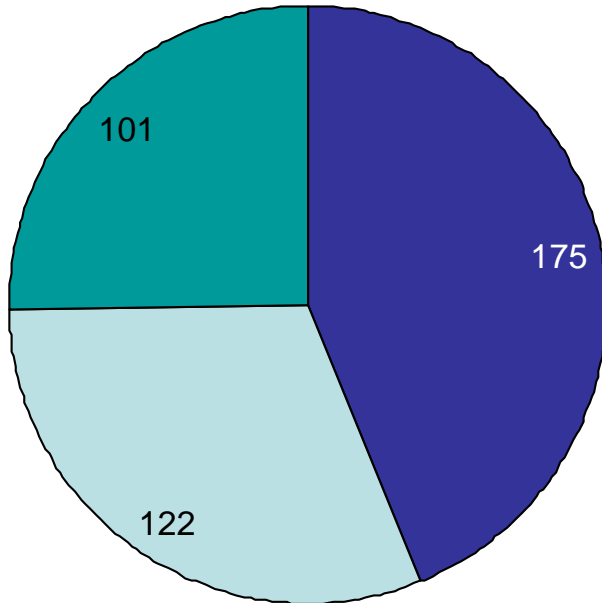


Operating Profit



# Affordable Housing – Market Sectors

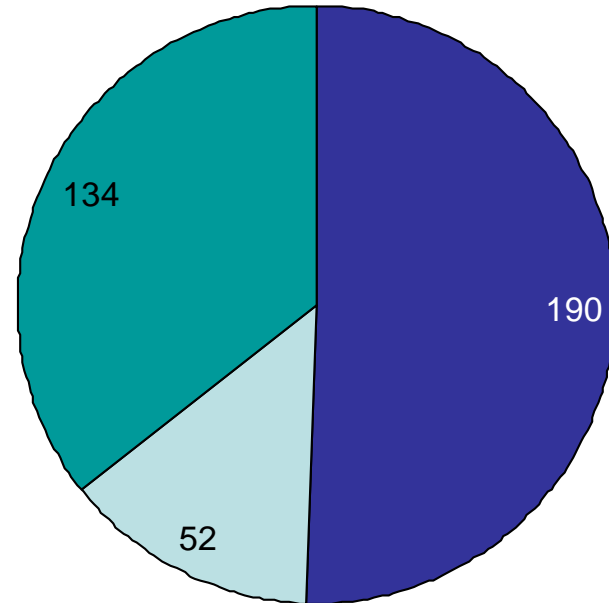
2007 full year



**Total**

**£398m**

2008 full year



**£377m**

■ Refurbishment   ■ Open Market   ■ Social Housing



# Affordable Housing – Projects



**Client:** New East Manchester  
**Project:** 432 home regeneration development  
**Contract value:** £65m  
**Location:** Toxteth Street, Openshaw, Manchester

**Client:** Bromford Housing Group  
**Project:** Rea Valley regeneration  
**Contract value:** £34m  
**Location:** Northfield, Birmingham



**Other key projects:** Hounslow Homes Social Housing (£53m), Norwich City Council Decent Homes (£25m), Rock Ferry, Wirral (£37m), Somer Community Housing Trust (£35m)

# Affordable Housing – Outlook

- Sector remains Government priority
- HCA partner allows access to development grants
- £800m of social housing spend brought forward
- Decent Homes Programme will continue beyond 2012
- Focus on new build social housing and refurbishment in short term
- Fundamental housing need remains: mixed tenure projects still long term solution
- Order book at £1.3bn (2007: £1.5bn)

# Urban Regeneration



# Urban Regeneration – Market & Trading Highlights

- Operating profit of £7.8m (2007: £4.2m) on revenue of £84m (2007: £26m)
- Operating profit includes post tax share of JVs of £1.3m (2007: £3.3m)
- Secured £350m Swindon regeneration project
- Renegotiated number of existing agreements

# Urban Regeneration – Projects



**Partner:** Reading Borough Council  
**Project:** Mixed use development scheme  
**Contract value:** £250m  
**Location:** Chatham Place, Reading



**Partner:** United Utilities  
**Project:** 1.25m sq ft of business space and related amenity facilities  
**Contract value:** c£200m  
**Location:** Lingley Mere, Warrington



**Other key projects:** Ashton Moss, East Manchester (c£250m), Plymouth Millbay (£300m), St Paul's Square, Liverpool (£160m)

# Urban Regeneration – Outlook

- Progressing three opportunities at preferred bidder
- Business model remains the same
  - Partnership approach
  - No land bank
  - Phased development
  - Income streams from fees, land trading and property sales
- Slowdown in project delivery due to subdued demand
- Well positioned for when market recovers
- £1.3bn share of development pipeline plus projects at preferred bidder of £0.7bn (2007: £1.2bn, £1.1bn respectively)

# Summary – Outlook and Prospects

- Continued success of strategy in developing market leading positions in our chosen sectors
- Benefit of decentralised structure: each business able to react to specific market conditions
- Exposure to public and regulated sectors means the Group is well positioned
- Major infrastructure opportunities
- Financial strength and scale
- Order book at £3.7bn

***“We are well placed to emerge from these challenging times as an even stronger business.”***



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# the construction and regeneration group

**Preliminary Results 2008**

